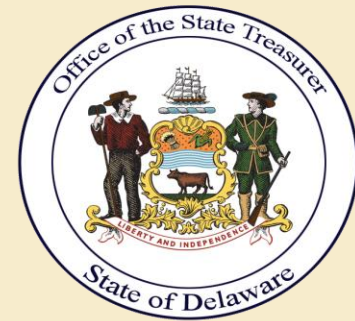


Understanding Deferred Compensation

Office of the State Treasurer





Topics To Be Covered

- Overview
- Benefits
- Policies and Procedures
- Enrollment
- HR Roles and Responsibilities
- Forms
- Educational Resources
- Summary



Overview

Binder Tab 1

- The Deferred Compensation Program is a means for employees of The State of Delaware, on a voluntary basis, to provide additional retirement income security by contributing to a qualified retirement savings account sponsored by the The State.
- Employees set aside money for retirement through a salary deferral agreement with their employer. Under this arrangement, the employee agrees to take a reduction in salary. The money reduced is directed into an investment company offered by the employer. The contributions grow tax free until withdrawal at retirement or termination of employment.



Overview (cont.)

- The Deferred Compensation Program is part of the Delaware Code and can be found in [Title 29, Chapter 60A, Sections 6051-6061](#).
- The general administration of Deferred Compensation is the responsibility of The Deferred Compensation Council.
- The clerical administration of Deferred Compensation is the responsibility of The Office of the State Treasurer.
- Three plans make up The Deferred Compensation Program
 - 457(b) – All pension eligible State employees
 - 403(b) – All Public School, DOE, DSU, DTCC employees
 - 401(a) – Match Plan for 457(b) participants



Overview (cont.)

- The employer must create a plan document for each plan detailing the specific rules of the plan. The State of Delaware's plan document's for the 457(b), 403(b), and 401(a) can be found at www.treasurer.delaware.gov.
- The plan is self-directed, meaning the employee controls their contribution election and choice of investments.
- Contributions are made only by payroll deduction.



Benefits

Binder Tab 2

- Easy and convenient way to save for retirement
 - It is estimated that employees will need 85% of their current income to get through retirement. This means someone making \$30,000 today may need over \$510,000 in retirement. Pension and Social Security income may not be enough to pay for everything. This is why saving for retirement is so important.
 - Because contributions are automatically deducted from the paycheck, it is a very easy way for employees to save.



Benefits (cont.)

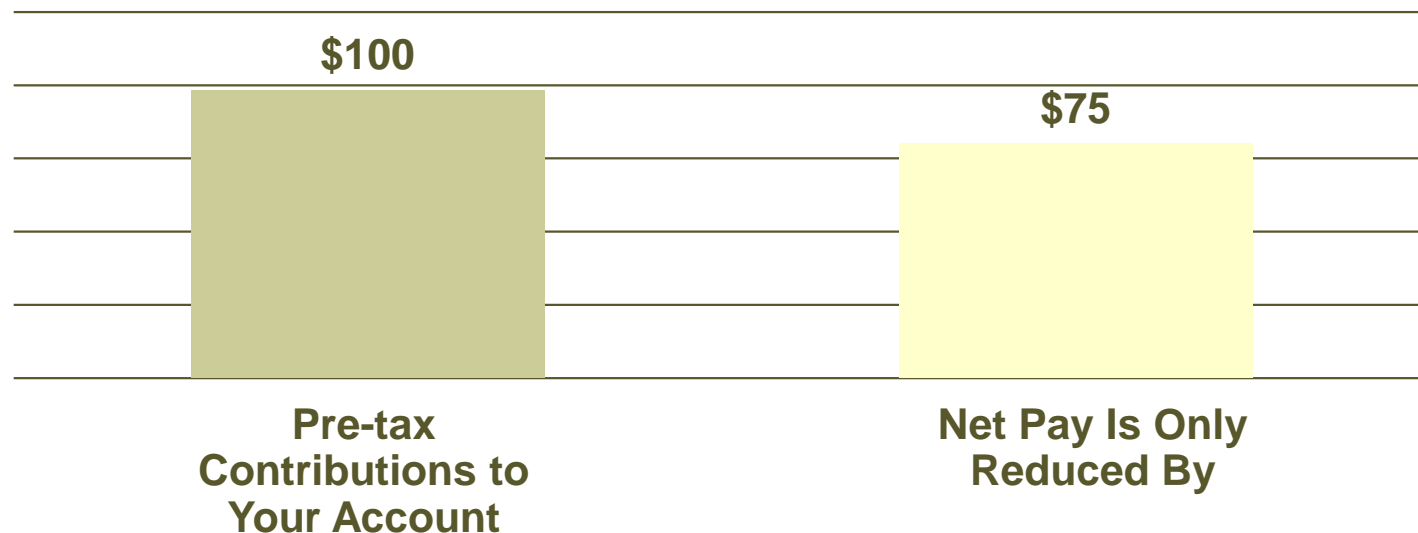
- Contributions are deducted from the paycheck pre-tax
Lowers Taxable Income

Assumptions:

Annual Salary \$30,000 Paid monthly

Want to contribute 4% into your retirement account

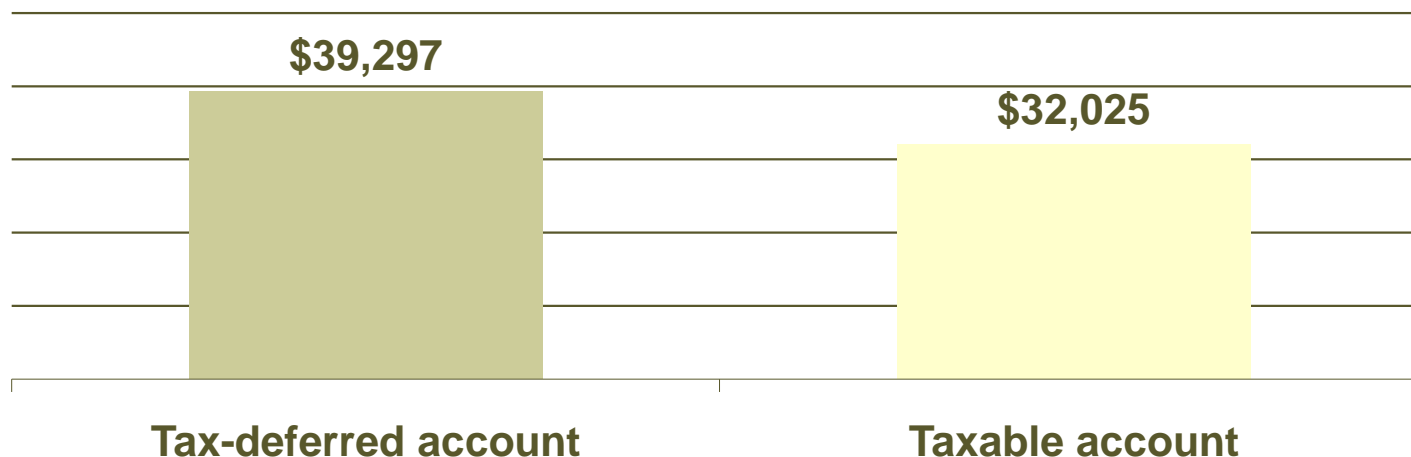
Federal Income Tax is 25%





Benefits (cont.)

- Growth is tax deferred
 \$100/month for 20 years
 (hypothetical 25% tax bracket)



The hypothetical chart above illustrates the difference tax-deferred earnings and contributions can make. The assumption is that two people invest \$100 per month at the beginning of each month over 20 years. Each one is in the 25% federal income tax bracket, earning a 7% annual rate of return compounded monthly. All earnings are reinvested. The only difference is that one account had the benefit of tax-deferred earnings and contributions—the other account did not. Federal income taxes at a rate of 25% have been withheld from the tax-deferred account. Your own account may earn more or less than this example. Investing in this manner does not ensure a profit or guarantee against loss in declining markets.



Benefits (cont.)

- Tax Credit for lower income individuals who make pre-tax contributions.

Joint Return		Head of Household		All Other Cases		Applicable
Over	Not Over	Over	Not Over	Over	Not Over	Percentage
\$0	\$33,000	\$0	\$24,750	\$0	\$16,500	50%
\$33,000	\$36,000	\$24,750	\$27,000	\$16,500	\$18,000	20%
\$36,000	\$55,500	\$27,000	\$41,625	\$18,000	\$27,750	10%
\$55,500		\$41,625		\$27,750		0%



Benefits (cont.)

- Other benefits
 - Investment choice
 - Professional Management
 - Dollar cost averaging
 - Diversification
 - Cost Effective
 - Employer Match of \$10 per pay for 457(b) participants (Suspended FY 09, FY 10, ???)



Policies and Procedures

Binder Tab 3

- Plan Eligibility
 - 457(b)
 - This voluntary tax-favored program allows all State of Delaware pension eligible employees to defer a portion of salary, before federal and state taxes are taken, into a supplemental retirement account with **Fidelity Investments**.
 - Casual/Seasonal employees are not eligible for the plan.



Policies and Procedures

- Plan Eligibility
 - 403(b)
 - This voluntary tax-favored program allows all employees of public schools, DTCC, DSU, and DOE to defer a portion of salary, before federal and state taxes are taken, into a supplemental retirement account.
 - Employees who are eligible for both plans can participate in both plans simultaneously.



Policies and Procedures

- Plan Eligibility
 - 401(a)
 - An Employee must be enrolled in the 457(b) Deferred Compensation Plan and making salary reduction contributions pursuant to such program at each Pay Period for no less than six (6) consecutive months.



Policies and Procedures (cont.)

- Contribution limits
 - 457(b)
 - Regular Contributions
 - If you are age 49 or younger, you can contribute \$16,500 in 2010.
 - Age 50 Catch-up
 - If you are age 50 or older, you can contribute an additional \$5,500, for a total of \$22,000 in 2010.
 - All participant's are eligible for this catch-up option starting at the beginning of the year they turn age 50.



Policies and Procedures (cont.)

- Contribution limits
 - 457(b) (cont.)
 - Special Catch-up
 - As an alternative to the age 50 catch-up, a 457 plan participant is eligible to defer up to twice the contribution limit in effect for the three years preceding the employee's normal retirement age. The maximum contribution amount for 2010 would be \$33,000.
 - Employees interested in this option must contact The Treasurer's Office to determine eligibility and complete a form certifying eligibility.



Policies and Procedures (cont.)

- Contribution limits
 - 403(b)
 - Regular Contributions
 - If you are age 49 or younger, you can contribute \$16,500 in 2010.
 - Age 50 Catch-up
 - If you are age 50 or older, you can contribute an additional \$5,500, for a total of \$22,000 in 2010.
 - All participant's are eligible for this catch-up option starting at the beginning of the year they turn age 50.



Policies and Procedures (cont.)

- Contribution limits
 - 403(b) (cont.)
 - Participant's who are eligible for the 403(b) and the 457(b) can contribute the maximum to both plans in the same year, for a total of \$55,000 in 2010.
 - 401(a)
 - An amount equal to ten dollars (\$10) per Pay Period is credited to the Matching Account of each Qualified Participant making a voluntary deferral for that Pay Period under the provisions of the Deferred Compensation Plan, contingent on funding by the Delaware General Assembly.



Policies and Procedures (cont.)

- IRS rules for allowable distributions
 - Separation from State service at any age
 - Upon separation an employee can withdraw their assets in the plan for any reason without penalty.
 - Active employee reaching plan specific minimum age
 - 457(b) at age 70 ½
 - 403(b) at age 59 ½
 - QDRO (Qualified Domestic Relations Order)
 - A QDRO is a legal order subsequent to a divorce that splits or changes ownership of a retirement plan to give the divorced spouse their share of employee's assets.



Policies and Procedures (cont.)

- Unforeseeable emergency (hardship)
 - 457(b)
 - Employee must apply by completing a State of Delaware Hardship Application and send it to the Treasurer's Office for review.
 - The application is reviewed by the Treasurer's Office.
 - Events which may qualify for a hardship distribution include – loss of property due to casualty, funeral expenses, imminent foreclosure or eviction, documented medical expenses



Policies and Procedures (cont.)

- Unforeseeable emergency (hardship)
 - 403(b)
 - Employee must apply by completing a State of Delaware Hardship Application and send it to the Treasurer's Office for review.
 - The application is reviewed by the Treasurer's Office.
 - Events which may qualify for a hardship distribution include – documented medical expenses, purchase of a primary residence, tuition, imminent foreclosure or eviction, loss of property due to casualty, funeral expenses



Policies and Procedures (cont.)

- Unforeseeable emergency (hardship)
 - 401(a) hardship distributions are not allowable
- Death of participant
 - Upon the death of a participant, the spouse, family member, or other person handling the estate should contact the Treasurer's Office.
 - The Deferred Compensation account is transferred to the surviving spouse or beneficiary(s) of the decedent.
 - If there is no spouse or beneficiary(s), the account will be transferred to the estate of the deceased participant.



Enrollment

Binder Tab 4

- 457(b)
 - Enroll Online at www.fidelity.com/atwork and click the link that says, “Join your workplace savings plan today.”
 - Complete a New Enrollment Agreement form and fax it back to the Treasurer’s Office at 302.677.7031. The form can be found at www.treasurer.delaware.gov
 - Employee chooses the amount they wish to contribute
 - Employee chooses their investment option.



Enrollment (cont.)

- 457(b)
 - Investment Options
 - Fidelity Freedom Funds – Default Investment Option of the plan. The Freedom Funds are an age based portfolio of investments that are allocated among stocks, bonds, and short-term investments.
 - Core Investments Options – 18 core investment options to help participant's create a diversified portfolio.
 - Expanded Investments Options – Additional Options for more sophisticated investors.
 - BrokerageLink – Self-directed brokerage account.



Enrollment (cont.)

- 403(b)
 - Enroll at www.myretirementmanager.com/?delaware or click the link to Retirement Manager at www.treasurer.delaware.
 - The employee will choose set up a User ID and Password and then choose the amount they wish to contribute.
 - They also must contact one or more vendors to establish investment accounts for their contributions.
 - Investors have the option of investing in many different types of investments based on the vendor they choose.
 - Additional vendor information can be found on our website at www.treasurer.delaware.gov.



HR Roles and Responsibilities Binder Tab 5

- Explain the value of Deferred Compensation to all new employees and provide them with the both the online instructions and paper form to enroll in the plan.
- Explain the value of Deferred Compensation to existing employees who are not participating in the plan.
- Be able to provide both Fidelity and Treasurer's Office contact information to employees who have questions.
- Distribute email correspondence concerning promotion of the plan from the Treasurer's Office to all of your employees.



HR Roles and Responsibilities (cont.)

- Explain to employees approaching retirement the value of deferring Sick/Vacation pay to Deferred Comp.
 - Reduces Federal and State Tax on the amount deferred.
 - Taxes are not paid until the money is withdrawn.
 - Money in Deferred Compensation can be used to purchase service time as a tax-free transfer of funds.
 - Provide the Sick/Vacation Form to employees, help them fill it out, and advise of the time frame required for receipt of the form by the Treasurer's Office.
 - 457(b) SICK/VACATION FORM MUST BE RECEIVED BY END OF MONTH PRIOR TO MONTH PAYCHECK IS ISSUED.



FORMS

Binder Tab 6 and 7

- 457(b)
 - New Enrollment Form – To enroll in the plan
 - Participant Agreement Form – To change or suspend deduction
 - Sick/Vacation Deferral Form – To defer sick/vacation time
 - Catch-up Certification Form
 - Hardship Application



FORMS

- 403(b)
 - Salary Reduction Agreement – Only used for deferral of Sick/Vacation pay. All other changes made online at www.myretirementmanager.com/?delaware.
 - Hardship Application



Educational Resources

Binder Tab 8

- Fidelity Investments Retirement Consultations
- www.treasurer.delaware.gov
- www.fidelity.com/atwork
- www.retirementmanager.com/?delaware
- E-mail communications distributed by The Treasurer's Office



Summary

Binder Tab 8

Thank you for participating in Understanding
Deferred Compensation!!!